THE

QUARTERLY JOURNAL

OF

ECONOMICS

AUGUST, 1907

THE TREASURY AND THE BANKS UNDER SECRETARY SHAW.

LESLIE M. SHAW was appointed Secretary of the Treasury on January 16, 1902. He continued in charge of the Treasury department of our government until March 4, 1907, his term of office being one of the longest in our history. It was longer, in fact, than that of any of his predecessors since the establishment of our independent treasury system, the institution toward the breaking up of which the Secretary's energy and ingenuity were particularly directed. During the period of his administration the country was exempt from unsettlements due to foreign wars and free from serious domestic crises either in politics or in trade. Yet Mr. Shaw's policy was characterized by innovations and stretchings of his constitutional powers such as ordinarily an administrative official only makes as a last resort in moments of helpless and unforeseen catastrophe. It is well within the truth to say that no treasury official since the Civil War has so shaken the accepted traditions of that department, launched so many

changes and experiments of policy, and left behind him so varied a series of fresh precedents.

In order to arrive at a clear understanding of what Mr. Shaw intended by his various measures and proposals, and in order to form a fair judgment of his policy in its details and as a whole, it will be well to keep freshly in mind the peculiar features which differentiate American banking relations from those of England or of Continental countries, for these peculiarities underlie the problems that the late Secretary set himself to solve.

Most of the practices and projects of the late Secretary gave new impetus to the disintegration of that peculiar feature of American finance, the independent treasury system. Ever since the system was established seventy years ago, men had been endeavoring to modify or suppress it by legislation, but Secretary Shaw attempted to dispose summarily of the questions that remained by a series of executive orders. We can, perhaps, best place Mr. Shaw's policy in its proper perspective by recalling the weak points in the Treasury system, and reviewing the previous efforts which had been made to rectify them.

The shortcomings of the independent treasury scarcely need to be reiterated. The very idea of keeping one's accumulations in carefully guarded idleness pertains to the conditions and habits of the Middle Ages. It is not practised to-day in enlightened communities by corporations or individuals, and only exceptionally and limitedly does it survive among governments, federal, state, and municipal. In England all of the public funds, and in France and Germany by far their greater portion, are kept in the custody of the central banks; and in most of the American states banks are also used as repositories for the state revenues pending their disbursement. Yet in almost any European country the plan for handling its funds adopted

by our federal government in 1846 might be employed with far less disturbance to business than it is apt to cause in the United States. With a single treasury official proposing all measures of taxation and all bills of appropriation, and holding himself responsible for their approximate equalization, an independent treasury would not result in the haphazard withdrawals of money from the circulation, and injections of money into it, with which we have so long been familiar in the United States. The community might still be confronted with a periodical absorption of money if the weeks when most of the taxes were being paid did not coincide with those of the government's greatest disbursements; but such regularly recurring movements could be readily predicted, and due provision could be made to meet them. Unfortunately, in the United States the government finances are subject to no such unity of control, and are productive of no such harmonious results. With one Congressional committee preparing a set of bills for raising money, and a group of eight or more quite distinct committees preparing the bills for spending it, and no committee concerning itself very seriously with the plans of the others, our methods are not planned to effect even a rough balance between income and expenditure. The committee on ways and means, in framing revenue measures, not only is without definite information as to the appropriations to be made by the spending committees, but not infrequently in the past has been more anxious to devise legislation that would further particular industries than to frame laws that would furnish the exact amount of revenue required. The several spending committees in their turn not only make their recommendations without a clear knowledge of what is being proposed by the other spending committees, or of the condition of the government's income, but also have often evinced an inclination to assert their individual

importance in obtaining for their constituents the largest possible share of the total revenue. No American can ever be surprised as a European would be, at any divergence, no matter how large one way or the other, between government revenue and expenditure.[1] We are accustomed to seeing a surplus balance accumulate in the Treasury from time to time to the extent of several hundred millions of dollars, all of which, under a rigorous application of the independent treasury principles, would be drawn out of the active circulation or the banking reserves.[2] And we are equally accustomed to seeing this situation reversed, and the surplus turned to a deficit as a result of some change in fiscal legislation, or some sudden reaction in the fertility of taxes, and then the accumulated hoards are poured back into the circulation, regardless of the community's needs. The difficulty is increased by the fact that these movements of money in and out of the Treasury tend to occur with annoying perversity in directions quite contrary to the needs of business. It is especially in the periods of abounding prosperity, when the

[1] The following table shows the fluctuating balances between ordinary revenues and expenditures during the last four decades. The "ordinary" revenues do not include receipts from loans or certain other unusual receipts, and the "ordinary" expenditures do not include repayments of the public debt and similar items. The figures represent millions of dollars.

Year	*Surplus.*	*Deficit.*	*Year.*	*Surplus.*	*Deficit.*
1867	116 1		1888	119 6	
1868	6 1		1889	105 1	
1869	36 0		1890	105.4	
1870	102.3		1891	37 2	
1871	91 2		1892	9 9	
1872	94 1		1893	2 3	
1873	37.0		1894		69 8
1874		1.3	1895		42 8
1875	9 4		1896		25 2
1876	25 0		1897		18 1
1877	39.7		1898		38 1
1878	20.7		1899		89.1
1879	5.4		1900	79 5	
1880	68.7		1901	77 7	
1881	101.2		1902	91.2	
1882	145 6		1903	54.2	
1883	132.9		1904		41 7
1884	104 4		1905		23.0
1885	63.5		1906	25 6	
1886	93 9		1907	86 9	
1887	103.5				

[2] See appended table, p. 567.

banks are experiencing the most active pressure for loans, and when currency is most in demand, that our taxes, and particularly the customs dues, which are our chief source of revenue, become unusually prolific. The government, in other words, tends to lock up more and more money in its vaults at exactly the times when the community in general, and the banks in particular, stand in greatest need of it. On the other hand, it is in months of business stagnation, when the bank reserves are already swollen with idle money, and the circulation is already redundant, that our taxes are apt to become less fertile, and that the treasury hoards tend again to be unloaded upon the banks and into the circulation, although obviously these are the periods when such additions are least desired.

These shortcomings of the independent treasury, exaggerated as they are by the absence of a balanced budget, were recognized and tentatively dealt with by Treasury officials very soon after the system went into operation. As early as 1853 the excessive accumulation of money in the Treasury excited apprehension, and led Secretary Guthrie to attempt its reduction by offering to purchase unmatured bonds at a premium. The same method was used by Secretary Cobb to disburse a surplus and relieve stringency during the critical period of 1857, and later Secretaries have again and again resorted to the expedient in order to dispose of superfluous revenues.

When the national banking system was established a few years later under the exigencies of the war, another means of escape from the difficulty was offered in the provision of the act of 1863, that public money, except customs dues,[1]

[1] The reason for excluding customs dues from this privilege was that they were paid in gold which the government wanted to accumulate, while the banks at the time carried on their transactions in a discounted paper money. The exception survived on the statute books until March 4, 1907, altho the occasion for its existence ceased twenty-eight years before with the resumption of specie payments.

might be deposited in the national banks—a privilege which was qualified in the following year by the statement that the Secretary should require the depositary banks "to give satisfactory security by the deposit of United States bonds and otherwise, for the safe-keeping and prompt payment of the public money" so deposited. This modification of the independent treasury system was doubtless primarily intended to furnish additional inducement for the organization of national banks and the consequent absorption of bonds, but the increase in taxes and the heavy borrowing incident to the war virtually necessitated the employment of some such agency in order to avoid a temporary withdrawal from use of the vast sums being collected.[1] Secretary Fessenden and Secretary McCulloch both employed the national banks as fiscal agents and as depositaries, and both testified to the aid rendered by them to the department. After the war and in the course of the seventies, when the government was carrying through large refunding operations, this provision of the national bank act proved especially serviceable, for the proceeds of new bond sales could be left in the banks while the old bonds were being withdrawn, and in this way an otherwise inconvenient contraction of the currency was avoided. Secretary Sherman, it appears, had to his credit at the end of May, 1879, deposits amounting to no less than $279,544,645, almost all of which had accrued from bond subscriptions incident to the refunding of the 5–20s. This marks the highest level that the public deposits have ever reached. One can easily imagine how great would have been the distress, had such a large portion of the country's money been suddenly taken from current activity and segregated in the government Treasury.[2]

[1] See *Finance Report*, 1866, p. 171.

[2] Secretary Sherman said that the principal difficulty in refunding arose out of the provision in the act of Congress that ninety days' notice should be given to the holders of bonds by the government, when it exercised its option to pay. Prudence,

The extensive use of the national banks at this time as depositaries for the proceeds of loans was apparently regarded as involved in their employment as financial agents of the government in placing these loans, and had the special justification of being more or less incident to the vicissitudes of war. It was not often singled out for particular criticism, altho the general policy of "consorting" with the banks was bitterly assailed and Secretary Sherman was unsparingly blamed for alleged favoritism in the choice of depositaries.[1] When the government's loan operations were completed, however, the general consensus of opinion for a long time seems to have opposed the Secretary's making any large resort to the banks as depositaries for the ordinary revenues, so that during the eighteen years following 1879 the public deposits in the banks averaged less than 20 millions. Only once during the period, in 1887–8, when Secretary Fairchild found his department overwhelmed with an increasing balance of more than 300 millions, and when a fifth of the country's money was said to be locked up in the Treasury's vaults, did the public deposits rise much above 15 millions. In the face of the alarming accumulations of this period Mr. Fairchild naturally felt bound to check impending financial pressure by restoring at least a portion of the money to trade; and this he did, not only by large pur-

he said, required the actual sale of 4 per cent. bonds before a call could be made to the holders of the 5–20 bonds, and this involved the retention of the sums borrowed during the three months' interval. John Sherman's *Recollections*, vol. ii. p. 707. See also his letters to the Senate of March 26 and April 5, 1879, 46th Congress, 1st Session, Senate Executive Document, No. 9, and Senate Executive Document, No. 9, Part 2.

[1] See John Sherman's *Recollections*, vol. ii. p. 708. He was especially charged with having favored the First National Bank of New York.

Mr. Sherman appears at one time to have entertained some doubts as to the legality of the general policy of making such deposits with the banks, inasmuch as he obtained the opinion of Attorney-General Devens on August 30, 1877, before adopting it. John Sherman's *Recollections*, vol. i. p. 602. See also 46th Congress, 2d Session, House Executive Document, No. 9, pp. 136, 117, where the opinions of Attorney-General Devens and Comptroller Knox are given in full.

chases of bonds in the open market, but also by offering to increase his deposits with the banks, and by instituting several new rulings designed to induce banks to qualify more largely as depositaries. Up to this time the maximum amount ordinarily intrusted to any one bank (except on loan account in the case of bond subscriptions) had been $500,000, but Secretary Fairchild increased the allowance to $1,000,000.[1] The earlier practice, too, had been to allow the banks to hold public money only up to 90 per cent. of the par value of the bonds deposited as security, a ratio established when the bonds were selling at or below par, and no longer pertinent when the 4 per cents. commanded a premium of 25 per cent. In fact, it precluded the chance of finding many banks willing to comply, and so Mr. Fairchild changed this ruling also, in May, 1887, and a balance equal to par was allowed upon 4 per cent. bonds. In October, in view of the prolonged stringency in the money market and the increasing amount of surplus in the Treasury, and as an added inducement to banks to become depositaries, the rule was again changed, and a "balance was allowed equal to 110 per cent. of the face value of 4 per cent. bonds and par of the 4½ per cents., whenever a sufficient margin remained to cover the largest deposit likely to be received in any one day."

By these varied means Mr. Fairchild succeeded, in the course of 1887, in transferring some 40 millions from the Treasury vaults to the banks; but it was claimed at the time that his efforts to restore Treasury hoards to the circulation were more or less nullified, as regards their intended effect, by the resultant contraction of bank-notes. As notes could only be obtained to the extent of 90 per

[1] *Commercial and Financial Chronicle*, vol. xlv. (1887) p. 488. In this connection it is interesting to observe that twelve years later, on December 30, 1899, under Secretary Gage, one institution, the National City Bank of New York, held government deposits amounting to $15,668,812, while the Hanover National Bank held $4,649,694.

cent. of the face value of the bonds, there was said to be an advantage in transferring bonds from the account of security for circulation to the account of security for public deposits; and this claim was more or less supported by the fact that the circulation decreased during the year by the identical sum of 40 millions. Mr. Fairchild himself admitted "that the increased percentage of deposits allowed upon the security of the bonds deposited did have the effect of somewhat diminishing the circulation of national bank-notes," . . . altho he thought by "not more than four or five millions."[1]

At the end of February, 1888, the government deposits touched $61,546,000.[2] By this time came a vehement outcry from the political platform and the public press—in particular from the orators and papers appearing under Republican auspices—against the continuance of such a policy.[3] The succeeding Secretary, Mr. Windom, declared the policy "wholly unjustifiable." He objected to making such deposits on the ground that it involved "temptation to favoritism of the most objectionable character"; on the ground that the withdrawal of such deposits, when once made, would be difficult and disturbing to business; on the ground that "it involves the exercise of a most dangerous power of the Secretary, whereby he may, if so disposed, expand or contract the currency at will"; and on the ground that it was unjust to the government to grant the banks the free use of money, and

[1] 50th Congress, 1st Session, vol. xxviii., House Executive Document, No. 243. *Cf.* John Jay Knox, *History of Banking*, pp. 191, 192.

[2] See appended table, No. 1, p. 567, and appended chart, facing p. 568.

[3] In the campaign of the following autumn Mr. Blaine and other Republican speakers continually found in this policy material for rhetorical attacks upon the administration. In Detroit on October 3, 1888, for instance, Mr. Blaine declared that "more than $60,000,000 had been loaned without interest to various banks throughout the country, resulting in an annual gratuity of $3,000,000 given by the President and Secretary of the Treasury to the rich bankers, when it might more worthily have been bestowed upon the poor soldiers." Boston *Daily Advertiser*, October 4, 1888.

at the same time pay them interest upon their bonds placed as security.[1] During Secretary Windom's administration the surplus for various reasons disappeared, and the government's deposits with the banks were again reduced to a normal working balance of less than 20 millions. There they remained until the administration of Secretary Gage, beginning in 1897.

In the later nineties the money in the Treasury again reached unusual proportions. Mr. Cleveland's hundred million bond sale in January, 1896, carried the Treasury balance to $271,641,748, and then, as business recovered, and taxes, especially under the Dingley tariff, became more productive, this heavy balance tended to be maintained. Later, as the $200,000,000 of Spanish War bonds in 1898, and the new war taxes, poured in their additional floods, it mounted to still higher levels, and the treasury balance in September, 1898, again passing the 300 million mark, registered $307,557,502. Secretary Gage found himself in a predicament like that of Secretary Fairchild a decade before, and he met the situation in very much the same way, by prepaying the interest and capital of bonds and by increasing his deposits with the banks, with the difference only that he resorted to the latter method more extensively. Before the end of 1898 Mr. Fairchild's much criticised aggregate of 61 millions of deposits had been left far behind, altho the balance accumulated in the Treasury was not so large by many millions. On the last day of October the government deposits reached $95,014,970, and during the next period of stringency, towards the close of the following year, the total was swept even above 100 millions, altho the Treasury balance still lacked 50 millions of the aggregate it had attained in Mr. Fairchild's time. Mr. Gage's deposits with the banks were almost double those of Mr. Fairchild, altho the Treas-

[1] *Finance Report*, 1889, p. lxxxviii.

ury's condition was by no means so ominous. Mr. Gage, in his turn, now became the object of bitter assault throughout the country, his action even being subjected to special Congressional investigation.[1] By a ruling of Secretary Gage on December 6, 1899, the deposits in national banks had been limited to par on bonds bearing 4 and 5 per cent. interest, to 95 per cent. of their par on 3 per cents., and to 90 per cent. on the 2 per cents. But during the next period of serious pressure, in September, 1901, Mr. Gage sought to release funds by removing all of these distinctions and making all classes of bonds available at par for deposits.[2] The deposits at the end of December, 1901, thus reached $112,653,534.[3]

The policy pursued by Secretary Gage marked well the transition to the following régime. When Secretary Shaw came into office, the government was still collecting more than it was spending, so that very soon thereafter, at the end of May, 1902, the Treasury balance reached proportions in excess of the record surplus of 1888. It still continued to increase, tho slowly, until September, 1903, when it amounted to $389,417,184. This fact is usually offered in explanation of the radical innovations of practice introduced by Mr. Shaw in the autumn of 1902 and in the course of the following year. It should be observed, however, that the actual amount of money *in the Treasury offices* at the end of August, 1902, was only

[1] See 56th Congress, 1st Session, House Document, No 264, vol lxxix. (3976), Senate Document, No. 121, vol ix. (3851). The Congressional criticism at this time was directed mainly at the fact that Secretary Gage had made disproportionately large deposits with the National City Bank of New York, and had used that institution as an agency through which the government funds were to be distributed among other banks, but repeated objection was made also to the extent of his deposits with banks in general

[2] *Finance Report*, 1902, p 137.

[3] See appended table, No. 1, p. 567, and chart, facing p. 568

about 8 millions more than was in those offices a twelvemonth before,[1] the reason being that Secretary Shaw had followed Secretary Gage's example, and had deposited with the banks a large part of the additions to the balance as they accumulated. Moreover, it should be borne in mind that the accumulation of such a large Treasury balance during the years from 1898 to 1902 had been accompanied by no currency contraction, for in the meantime, despite the growing absorption of money by the Treasury, the money in actual use had increased in the course of the four years by more than 470 millions of dollars. It could not be truthfully said, therefore, that radical action was necessitated either by the contraction of the currency or by the locking up of the public money in the sub-treasuries, altho there was a manifest tendency for money to accumulate there.

When the autumn stringency of his first year in the secretaryship came around, the situation in the money market in New York was more acute than usual. The reserves in the New York banks in September, 1902, fell below the 25 per cent. minimum, which had only happened once before since the memorable summer of 1893, and the approach of the decennial anniversary of that convulsive year naturally suggested anxious comparisons and tended further to increase the tension. Herein is to be sought the real reason for Secretary Shaw's unprecedented measures at this time. The situation furnished him with

[1] TREASURY BALANCE.

	Total Treasury Balance.	Balance in Treasury Offices.	Deposits in National Banks.	Total Money in Circulation.
August 31, 1896 . .	$243 millions	$227 millions	$16 millions	$1,539 millions
August 31, 1898 . .	294 "	229 "	65 "	1,792 "
August 31, 1901 . .	329 "	226 "	103 "	2,197 "
August 31, 1902 . .	359 "	234 "	125 "	2,264 "

his first opportunity to assume a parental relation towards the banks, and to put in practice his belief that one of the government Treasury's functions is to serve the money market as an ever-present help in time of trouble. He hurried to the relief of the market, and not only resorted to the traditional expedients, but invented several new ones. He anticipated payment of interest upon outstanding bonds, as many Secretaries had done before. He also made purchases of bonds for the credit of the sinking fund, in October even offering a premium of 37¾ per cent. for the 4 per cent. bonds of the loan of 1925—the highest premium that any Secretary had ever paid. He increased, as we have seen, the government deposits in the national banks, carrying them in December to the unprecedented level of $150,216,599, or two and a half times the amount of the deposits which had brought such virulent criticism upon Secretary Fairchild fourteen years before. In doing so he opened accounts with many institutions which had not been used before, increasing the number of depositary banks to 577, or over a hundred more than had ever been employed at any one time in previous years. These were all well-known expedients pressed to unaccustomed limits. But in the course of the autumn of 1902 Secretary Shaw launched two new rulings, quite without precedent.

I. On September 29, 1902, he offered to accept other security than government bonds for deposits of public money —a plan which had been advocated by the New York Chamber of Commerce upon several occasions. His first offer was to take the same general class of state and municipal bonds as is permissible for investment by savings-banks in certain of the States, each case to be considered by itself. But on October 23, the Treasury committee in charge decided to accept the uncontested bonds of any State, or of any city the debt of which (exclusive of water debts and sinking

funds) was less than 7 per cent. of the city's assessed valuation. Mr. Shaw thought that this ruling would not only make the receipt of government deposits easier for the banks, but would release government bonds and make them available as a basis for increased circulation, it being expressly stipulated that any government bonds released must be used for taking out additional notes. He would thus not merely avoid the contraction of bank-notes which previous Secretaries had found apt to accompany an increase in the public deposits,[1] but would be able to stimulate a double increase in the currency by enlarging the note issue and releasing idle money at the same time. In the course of October and November the bonds of five States and of seventeen cities were thus employed to the amount of 20 millions,[2] and within those months the Treasury deposits in the banks increased by 15 millions, and the bank-note issue by 18 millions.

The general collapse of the financial market in 1903 checked the further expansion of credit, and, altho the Treasury balance made a new record level of $389,417,184 in September of that year, there was no repetition of the monetary stringency of 1902. The minimum reserves of the New York banks were not trespassed upon, and Mr. Shaw not only did not extend the privilege of pledging city and state bonds for government deposits, but actually restricted it. By June 30, 1903, the use of such bonds had been reduced to $17,290,900, and by June 30, 1904, their amount had declined to $3,675,500. In the course of the year 1904, however, he still further increased the range of acceptable securities by also receiving railroad bonds to the extent of some 18 millions,[3] and during the last year of his secretaryship (1906), when the Treasury balance was again rising, Mr. Shaw went further in this direction than

[1] See above, p. 527.

[2] *Finance Report*, 1902, p. 138; 1903, p. 122.

[3] *Ibid.*, 1904, p 117.

ever before, and accepted state, city, and railroad bonds to the amount of $77,918,825.[1]

Whether or not Secretary Shaw was within the law in construing the statutory phrase "United States bonds and otherwise" as authorizing his acceptance of other securities in place of government bonds, has been a fruitful subject for controversy ever since his order was promulgated in 1902. The Congressional discussion at the time of the passage of the act makes it indubitably plain that the framers of the act intended by its terms to provide security for the government deposits, not only by government bonds, but also by *additional* personal bonds, in accordance with the earlier practice of the Treasury Department. The following discussion took place in the House on April 2, 1864:[2]—

Mr. HOOPER. I move to amend the forty-fifth section by inserting after the word "bonds," in the eleventh line, the words "and otherwise," so that the clause shall read: and the Secretary of the Treasury may require of the associations thus designated

[1] *Finance Report*, 1906, p. 115.

This is the aggregate of such miscellaneous collateral accepted during the year 1906 It was distributed as follows —

New York	$61,586,000
Boston	1,200,000
Washington	15,132,825
	$77,918,825

The relative proportions of the railroad, state, and city bonds respectively accepted have not been made public. The following table made up from recent Finance Reports shows the total of such collateral held on certain dates:—

November 20, 1902	$20,505,500
June 30, 1903	17,290,900
June 30, 1904	3,675,500
June 30, 1905	3,466,500
June 30, 1906	20,198,825
September 30, 1906	35,891,325

State, municipal, and high-grade railroad bonds, such as are legal investments for savings-banks in the States of New York and Massachusetts, have generally been accepted at 90 per cent of their market value. The Treasurer of the United States on July 1, 1907, held in trust to secure public deposits with the bank depositaries about 85 millions of such bonds, comprising hundreds of different kinds, but as the banks have been permitted to substitute one kind for another, as those originally furnished mature, the kinds of bonds are changing from day to day.

[2] *Congressional Globe*, 38th Congress, 1st Session, Part II, p 1401.

satisfactory security by the deposit of United States bonds and otherwise for the safe-keeping, etc.

Mr. HOLMAN. I would inquire of the gentleman what the effect of that amendment is. The security now required of these depositaries is the bonds of the United States. The gentleman from Massachusetts proposes to insert the words "or otherwise" after the word "bonds"; that is to say, the security shall either be bonds of the government or such other security as the Secretary of the Treasury may require. What other security does the gentleman from Massachusetts refer to?

Mr. HOOPER. By the present arrangement or rules of the Department the Secretary requires a personal bond in addition to the deposit of United States stock, and it was to cover that point that I offered the amendment.

Mr. STEVENS. The words are "*and* otherwise," not "*or* otherwise."

The amendment was agreed to.

This construction of the law seems to have been undeviatingly followed from 1864 down to Mr. Shaw's time.[1] Mr. Shaw, however, interpreted the words "and otherwise" as virtually meaning "or otherwise," and as providing for the substitution of other bonds *instead of* government bonds rather than *in addition to* them. So far as is known, no earlier authority for this construction of the phrase can be found in the forty previous years of national banking history. In the Treasurer's report for 1903 Mr. Ellis H. Roberts sought to locate precedents for Mr. Shaw's practice, and called attention to the fact that during the first year of the national banking system's existence personal bonds were used as collateral for the deposits in larger measure than government securities. The report of the Treasurer for 1864 is cited as showing that in that year $19,312,700 in personal bonds, and only $10,697,050 in government securities were pledged for the deposits.[2] This can scarcely

[1] See John B. Phillips, *Methods of Keeping the Public Money of the United States*, p. 131, note.

[2] *Finance Report*, 1903, p. 127.

be quoted as a precedent, however, inasmuch as it occurred before the passage of the substitute national bank act of June 3, 1864, which contained, for the first time, the clause quoted above requiring security for deposits by "United States bonds and otherwise."[1] Mr. Roberts also states that occasionally in later years between 1866 and 1883, personal security was accepted in small amounts, aggregating a total of $4,345,000 for the period of seventeen years. There is no indication, however, either in Mr. Roberts's report of 1903 or in the Treasurers' reports from 1866 onward that deposits were made upon the security of such personal bonds alone and unsupported by government bonds; and, if it be true, as has been asserted with considerable authority,[2] that the receipt of personal bonds was invariably in addition to the deposit of government securities, the cases cited furnish no warrant whatever on the ground of earlier practice for Mr. Shaw's policy.

Administration leaders appear to have been conscious of the questionability of Mr. Shaw's practice, and in the later years of his administration repeatedly tried to secure the adoption of an act by Congress which would explicitly legalize the acceptance of other collateral. Altho nothing was accomplished in the way of such legislation

[1] The first national bank act of February 25, 1863, stated no requirements as to collateral for the government deposits. *Cf.* Act of February 25, 1863, Section 54, with Act of June 3, 1864, Section 45.

[2] Mr. Charles S. Hamlin, formerly Assistant Secretary of the Treasury, in a letter published in the New York *Evening Post* on August 21, 1904, said:—

"A careful examination of the Treasury Reports from 1864 onward left some doubt in my mind as to whether personal bonds alone were ever accepted for government deposits, and I wrote the department, asking that the archives be examined and that definite information be given upon this point. I have ascertained the following facts:—

"(1) No deposits have been made since the National Bank act on the security of personal bonds alone.

"(2) All such deposits were secured by the pledge of government bonds at par in addition to personal bonds taken in many cases, except that in the year 1887 for the first time deposits were allowed up to 10 per cent. above the par value of the 4 per cent. bonds of 1907, which were then selling in the market at about 126."

during Mr. Shaw's term of office, on the very day of his retirement, March 4, 1907, the so-called Aldrich bill became a law, authorizing by implication the acceptance of "other securities" by providing that "the Secretary shall, on or before the first of January of each year, make a public statement of the securities required during that year for such deposits." For the future, then, no question as to the legality of such action can arise, and future Secretaries will be unreservedly free to release by substitution, and make available for circulation purposes, whatever amount of government bonds they choose.

II. Upon this same September 29, 1902, the day of the first issuance of his offer to accept other than government bonds, Mr. Shaw made another surprising announcement with regard to the government deposits, equally at variance with the common interpretation of the law and the traditions of the department. He informed the depositary banks that they need no longer keep reserves against their holdings of public funds,—a measure which at once affected about 130 million dollars upon deposit throughout the country, of which 40 millions were in New York. In New York City alone he thus added by one stroke 10 millions to the amount hitherto held as reserve against other deposit liabilities, or the basis for 40 millions of new loans, while in other parts of the country he set free the basis for an immediate credit expansion of no less than 90 millions. His plain intention in this ruling was to afford a double relief to the suffering market by contributing a large increase to the ordinary bank reserves, and making the banks at the same time more eager recipients of additional government deposits. Mr. Shaw claimed—and one can easily agree with him—that the government did not need, in order to secure its deposits from possible loss, any special reserve of cash, inasmuch as it was amply

protected by the bonds deposited as collateral. On the other hand, of course—and this Mr. Shaw seems to have overlooked—the public funds ought always to be kept so available that their utilization, when desired, will not incur embarrassment to the banks or disturbance to the market; and this would seem to involve the retention of a portion of the funds in the form of cash on the part of the depositary institutions. In fact, the maintenance of a proportional reserve against government deposits would seem to be only the part of good banking and sound Treasury finance. Nor can it be regarded as any hardship to the banks, which are receiving the use of considerable amounts of public money without any charge whatever, to be required to keep 6, or 12½, or even 25 per cent. (as the case may be) of the sums gratuitously lent in immediately available form. The Secretary evidently, however, did not attach much importance to such considerations.

Mr. Shaw's authority for the "no reserve" ruling was even more open to question than was that for his "other security" order. It was based, as may be seen from the transcript of a portion of the circular given below, upon a certain measure of tolerance in the enforcement of the law which the Comptroller of the Currency was authorized, by the national bank act, to exercise. The framers of the law in all likelihood contemplated allowing only an occasional and temporary postponing of its enforcement. It is incredible that they intended to endow the Secretary with power to set aside permanently any part of the laws which they had provided. Mr. Shaw's circular, however, took the form of an announcement of an indefinite and, to all intents and purposes, permanent suspension of the law, and so it has been treated by the government and by the banks ever since. The circular of October 4, 1902, with its strained interpretation of the law, read as follows:—

The National Banking Act, as you are well aware, lays down the rule that all associations shall maintain a certain reserve against all deposits; failing to do which the "Comptroller of the Currency may notify any association" "to make good such reserve." Failing to do which within thirty days, "the Comptroller may, with the concurrence of the Secretary of the Treasury, appoint a receiver," etc.

The law therefore lays down the rule that the reserve shall be maintained, but lodges a discretion with the Comptroller and with the Secretary of the Treasury as to the enforcement of the rule. You are therefore notified that the rule will not be enforced so far as it relates to government deposits secured by government bonds. It must be borne in mind in this connection that it is not the intention of the Department to encourage increased credit. On the the contrary, very great conservatism should be exercised. But it is the desire of the Department that no worthy business interest shall suffer simply because a bank has invested its money in government bonds to secure a government deposit, and to that extent has relieved the Treasury from a growing surplus, and has thus restricted its capacity to extend accommodation.

No similar order had ever been issued before. In fact, the only precedents that have been alleged are the momentary violations of the general reserve requirements which are continually being tolerated in one place or another, and the brief relaxations upon a larger scale which have occurred in certain abnormal periods, such as the summer of 1893, or in the case of the enormous loan funds held by the banks during the refunding operations of 1879. These non-enforcements of the law at most have not continued for more than a few weeks at a time, and, so far as is known, have never been openly recognized as having the deliberate sanction of the Treasury Department.

Mr. Shaw's order abolishing reserves against government deposits cannot be said to have been enthusiastically received by the public, even as reflected in the financial columns of many of the New York papers. The *Evening Post*, for example, was "convinced that this riding down

of both law and precedent by the Treasury will be visited in all conservative quarters with the severest condemnation,"[1] and *Bradstreet's*, in commenting upon events incident to the measure, concluded that it "enforces once again the importance of divorcing the Treasury Department from direct connection with the business of the country."[2] The New York Clearing House Association at once agreed to continue the usual reserve requirements against its members, and to this day (July, 1907) the Clearing House banks continue to include the United States deposits with total deposits[3] in calculating the percentage of reserve held by them. In the publications of the Treasury Department in Washington, however, the government deposits have been omitted from the calculation of reserves ever since the issuance of the order on September 29, 1902, just as if some change had been made in the national banking laws.

Such were the main features of Mr. Shaw's policy during his first year in office. "These operations were not begun," he assures us, "until a condition existed which, in the opinion of many leading bankers of New York City, justified the issuance of clearing-house certificates, and when a resort thereto was being seriously considered."[4] Needless to say, the clearing-house certificates were not issued, nor any further discussed. From that time on the banks of New York no longer felt obliged in times of stress, to rely upon methods of self-help and mutual relief, as they had in similar periods that went before.

[1] *Evening Post*, September 30, 1902, p. 6.

[2] *Bradstreet's*, October 4, 1902.

[3] In a letter dated June 17, 1907, Mr William Sherer, manager of the New York Clearing House, writes: "Government deposits are included in the item of 'deposits' in our tabulation of the weekly statements submitted by the Clearing House banks You will also find noted separately the changes in the excess reserve based upon the government deposits included and excluded, respectively, in the total deposits. In calculating the percentage of reserve held by the banks, we include the United States deposits in the calculation."

[4] *Finance Report*, 1906, p. 37.

III. Mr. Shaw's next innovation was made in the autumn of 1903. Previous Secretaries, in making deposits with the national banks, had simply allowed the internal receipts to accumulate there as they were paid in, but had not dared make deposits of money that had actually been passed into the Treasury. The accepted belief had always been that revenue once turned into the Treasury, could not be taken out and deposited elsewhere, inasmuch as the Constitution explicitly enjoins that "no money shall be drawn from the Treasury but in consequence of appropriations made by law."[1] Secretaries Sherman, Fairchild, and Gage, under whose administrations we have seen large deposits made by the government with the banks, never transferred money from the Treasury to those institutions, but merely allowed the bank holdings to accumulate out of the daily internal receipts.[2] Mr. Shaw, restive under a restriction which limited his power of relieving the market in times of stringency to the paltry half-million a day received from current internal revenue, set about discovering a means of escape. If the Constitution had provided that money should not be withdrawn from the Treasury except by vote of Congress, he ingeniously concluded that the difficulty would be removed by ruling that banks which served as depositaries were *ipso facto* part of the Treasury. This would permit the internal revenue collections, which had already been put into what had before been considered exclusively the Treasury, to be transferred

[1] Constitution of the United States of America, Article 1, Section IX, § 7.

[2] Secretary Sherman, in reply to a Senate inquiry on March 26, 1879, asserted that "no moneys have been transferred from the Treasury to the banks" 46th Congress, 1st Session, Senate Executive Document, No 9

John Jay Knox, writing of Secretary Fairchild's deposits, said that "the money was not taken out of the Treasury and paid into the banks, but consisted of internal revenue collections that were deposited with the banks as made by the collectors. For this reason many banks, after depositing a million in bonds, found that they had to wait a considerable time before the full amount of public moneys to which they were entitled was received" *History of Banking*, p. 192.

Secretary Gage, when endeavoring to relieve the acute stringency of December, 1899, only felt authorized to announce that he would "continue to allow the internal receipts to accumulate in the banks to the extent, if necessary, of 30 or 40 millions of dollars."

from that depositary to the depositary banks. The funds would, under this ruling, be merely moved, to use the terminology of one of the statutes which he cited in justification of his view, from one "apartment" of the Treasury to "such other apartments as are provided as places of deposit of the public money." [1]

Throughout the summer of 1903, while the bankers and financial writers debated as to whether or not the impending crop movements would cause the familiar autumnal difficulties, Mr. Shaw lost no opportunity to assure them that there would be no stringency, but not until the end of August did he reveal the reasons for his confidence. On the 27th of that month he made public his new ruling as to the transfer of money from the Treasury, and announced that during the months preceding he had already sequestered $38,458,641 of internal revenue and miscellaneous receipts with which he would replenish the money market in case of any emergency. He was willing to put all of this sum in the hands of the banks, and enough more of future collections to make the amount so deposited $40,000,000. A few days later he began to make such deposits, and during the next two months about $16,000,000 were added to the government funds in bank custody.

The radical significance of this measure can scarcely be exaggerated. Of all Secretary Shaw's innovations it is the one most pregnant with possibilities of use and abuse

[1] The following two sections of the revised statutes were quoted by Secretary Shaw in support of this ruling "Section 3591 The rooms provided in the Treasury building at the seat of government for the use of the Treasurer of the United States, his assistants and clerks, and occupied by them, and the fireproof vaults and safes erected therein for the keeping of the public moneys in the possession and under the immediate control of the Treasurer, and such other apartments as are provided as places of deposit of the public money, shall be the Treasury of the United States" (Act August 6, 1846) "Section 5153 All national banking associations, designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, except receipts from customs, under such regulations as may be prescribed by the Secretary, and they may also be employed as financial agents of the government, and they shall perform all such reasonable duties, as depositaries of public moneys and financial agents of the government, as may be required of them." See *Commercial and Financial Chronicle*, vol lxxvii p 471

as a precedent. It was an announcement to the banks in advance of any actual banking panic that the Secretary intended to relieve them in case they were in need. It was, moreover, an announcement that the process of relief need no longer be gradual, but might include prompt assistance of indefinite dimensions. The public funds which were collected in drops, and which had never before been returned to the market except in small doses, might henceforth be returned in floods. It virtually meant that the Secretary held the entire Treasury balance at his disposal to lend at such times and to such banks as he chose, and that he expected to use it freely in support of what he took to be the general business interests.[1] If doubts had still been extant as to the tendencies and limits of Mr. Shaw's policy, there could be no question thereafter. It was definitely clear now that, in his opinion, the Treasury ought not to be administered as a merely fiscal institution which, in periods of redundant revenue, might vary its usual policy by allowing the banks to collect some of its checks and temporarily retain their proceeds, but that Mr. Shaw reckoned among the essential functions of the Treasury the guardianship and protection of the money market. Of this belief his later conduct and proposals bore abundant witness.

During the years 1904 and 1905 Mr. Shaw's resourcefulness was put to no further tests. Trade activity slackened for a time, and not until the closing months of the latter year did any severe tension reappear. Meanwhile the Treasury, as a result of diminishing receipts and heavy extraordinary expenditures, including $50,000,000 for the Panama Canal, had experienced a deficit. The Secretary had been obliged to withdraw about $100,000,000 from

[1] The character of this measure was well indicated by the language of the Secretary on September 5, 1903, when he assisted certain St Louis banks which had become heavily involved with advances to the Exposition in that city. He spoke of it not as a deposit of public funds, but as a "temporary loan." New York *Evening Post*, September 10, 1903.

the banks to meet appropriations, and when the money pressure was again felt in October, 1905, Treasury resources were no longer sufficient to allow him to offer his customarily lavish assistance. All through the late autumn, when money rates ran high, rumors were rife that the Secretary contemplated measures of relief, and upon repeated occasions he visited New York "to confer with prominent bankers and business men." Yet no step was taken. The fact that the Treasury balance had declined to the lowest point it had touched since he assumed office was doubtless one reason for his inaction. But Mr. Shaw was probably also influenced by the continued buoyancy of the stock market and the current belief that speculation in stocks was causing half the trouble, and that speculators were deliberately continuing to bid up prices in the expectation of Treasury assistance to the banks.

In 1906, with abounding prosperity, the government receipts again became redundant, and the Treasury balance entered upon another cumulative movement which involved an increase of nearly $100,000,000 in the course of the calendar year.[1] Meantime money was in such urgent demand in New York that at four different times during the year the bank statements showed a deficiency of reserves,—in April, September, November, and December. Mr. Shaw, therefore, had ample opportunity during 1906 to employ his inventive ingenuity in devising fresh measures for getting money into the channels of trade and for relieving market distress.

IV. Probably the most important innovation of this sort made by him during this, his last year in office, was the plan, tried in periods of stringency both in April and September, of using the government surplus to facilitate

[1] The Treasury balance registered on December 31, 1905, $289,780,373; on December 31, 1906, $387,235,899.

imports of gold. On April 14 it was officially announced for the first time, that the Secretary would allow any depositary bank which engaged to import gold, to anticipate the arrival of the gold, by withdrawing a like amount in cash from the Treasury upon pledge of savings-bank collateral as security. The sum so withdrawn was to be regarded as a temporary loan, and to be returned to the Treasury as soon as the gold arrived. In providing such an arrangement, Mr. Shaw virtually reduced the cost of importing gold by the amount of interest during transit, and raised by so much the "gold import point." In other words, he endeavored to make it profitable for the depositary banks to import gold without waiting for sterling exchange to fall to the normal "gold point."

This was a measure which distinctly had nothing to do with the fiscal interests of the government. Gold imports are not a matter of government concern. They are part of a banker's private business. It was not the result of Treasury absorption of money, for the Treasury report of April 14 showed that the government offices had lost some 7 millions since March 1. Its frankly avowed intention was to influence the financial market, and it had no other reason for existence. In accomplishing this, Mr. Shaw temporarily eliminated, so far as the national banks were concerned, one item of expense in their foreign exchange operations. He gave them an advantage, for the time being, over all other firms engaged in the same business; and his action naturally excited criticism among the private bankers who found themselves discriminated against.[1] Critics also attacked his method of announcing his decision. It appeared that several days before the

[1] For estimates of the financial profit accruing to the banks favored by Mr Shaw's measure see the *Evening Post* (New York) for April 21, 1906, Financial Section, also the *Commercial and Financial Chronicle*, vol lxxxii p 1069 (May 12, 1906), and vol lxxxiii pp 1002, 1003 (October 27, 1906) A large amount of the gold brought in under the order came from Australia, which made the profits unusually large, because the money advanced by the Treasury was employable by the importing bank for periods of from thirty to forty days.

public or the other banks were informed of his intention Mr. Shaw had seen fit to make private arrangements with two New York banks for gold imports under the plan. The National City Bank had been awarded by private negotiation a temporary loan of $10,000,000 out of the public funds, and the Hanover National Bank had received $2,000,000, fully two days before any other firms were made aware that such privileges were to be available. Mr. Shaw's excuse was his desire to forestall the competition for gold in the London market which an open preliminary announcement of his policy might have evoked. The unwisdom of the action was recognized, however, even by those who praised his general policy. Nor was hostile criticism mitigated by the general publication at this moment of the fact, which had not been widely known before, that one of these same banks had been favored by the Treasury for several weeks, and possibly months, preceding, with virtually the same privilege under a different guise. This had been accomplished by allowing the bank in question to count as part of its reserve its importations of gold during their period of transit to New York. The imported gold had thus been made practically available as a basis for loans from the moment of its purchase abroad, and the item of time cost in such imports had been as completely eliminated as under the subsequently adopted plan. We have no published evidence as to how long or as to what extent this practice had been employed.[1] It was a relaxation of the law apparently made in favor of a particular bank, and not officially announced. From this point of view Mr. Shaw's circular of April 14, 1906, was to be commended. It at any rate had the virtue of extending openly and to all national banks the privileges that before had been privately extended to a few.

Just why Mr. Shaw should have chosen to relieve the

[1] See *Commercial and Financial Chronicle*, vol. lxxxii. pp 595, 657, 719, 773, 893.

market this time by stimulating the import of gold rather than by placing additional deposits in the national banks, as in former years, was never publicly explained. His statement issued at the time seemed to indicate that, in his opinion, the natural movement of gold was towards this country, but that the flow was being lured to other markets by the practices of European banks. He apparently hoped to overcome what he took to be an artificial diversion of gold from the United States by adopting, through the agency of the Treasury, measures similar to those which were being employed by the French and German central banks. Mr. Shaw in his last annual report pointed triumphantly to the fact that "in this way approximately $50,000,000 (more than six carloads) in gold, largely in bars, was brought from abroad,"[1] implying that this large import of gold had resulted solely from his efforts.

The Secretary's measures doubtless helped to expedite the movement, but one may be sure that no such contributions could have been added permanently to the monetary stock of the country unless there were deeper-lying reasons for the increase than Mr. Shaw's cheapening of the cost of import. One may be equally sure too that, if the reasons existed, the money would have sooner or later been brought to the country without the assistance of the Secretary, and despite the impediments offered by European banks. In artificially forcing the market Mr. Shaw helped momentarily to relieve the strain, but, in so far as his efforts were effective in bringing in gold which would otherwise not have come, he tended to create a situation conducing to a subsequent reverse movement of gold, with all of its possible consequences. The relief of the money market which his measure afforded meant a decline in the rates of interest and a consequent lowering of the incentive for

[1] *Finance Report*, 1906, p. 39.

further gold imports. Its eventual tendency, therefore, must have been to counteract the very movements which in the first instance it was designed to stimulate. It was an objectionable interference with the free movement of gold reminiscent of Mercantilist measures of the seventeenth century.

After the gold import order had been operating for about six weeks, Mr. Shaw concluded that it was no longer needed, and abrogated it summarily and without warning on May 29.[1] On September 5, however, he announced (this time in advance) that, beginning with September 10, he would repeat his operation of the previous spring, and would again deposit public money with institutions engaging gold for import. This offer continued open until October 23, when it was likewise discontinued without previous notice. Meanwhile $44,606,000 of gold had been imported at New York through Treasury advances, and $2,000,000 at Boston, while $7,457,844 came in unaided.[2] During these

[1] It appeared a day or so later that the National City Bank had engaged to bring $1,000,000 from Australia on the assumption that advances would be promptly procurable, as previously. Mr. Shaw, on being informed of the situation, made the desired deposit in that bank, with $500,000 additional representing a further purchase of Australian gold. *Commercial and Financial Chronicle*, vol lxxxii. p. 1234 (June 2, 1906).

[2] The following table, showing the extent to which a few New York banks were favored by the orders, is taken from the *Finance Report* of 1906, pp. 117-120.

DEPOSITS TO STIMULATE GOLD IMPORTS.

The $49,870,000 deposited between April 24 and July 10 were distributed as follows:—

National City Bank, New York	$31,000,000
Hanover National Bank, New York	4,000,000
Chase National Bank, New York	2,000,000
National Bank of Commerce, New York	3,370,000
First National Bank, New York	7,000,000
Fourth National Bank, New York	1,500,000
National Shawmut Bank, Boston	1,000,000

The $46,606,000 deposited between September 10 and October 10, were distributed as follows:—

National City Bank, New York	$25,078,000
Hanover National Bank, New York	298,000
Chase National Bank, New York	2,800,000
National Bank of Commerce, New York	9,105,000
First National Bank, New York	2,340,000
Bank of New York (National Banking Association), New York	1,170,000
Fourth National Bank, New York	3,815,000
National Shawmut Bank, Boston	2,000,000

six weeks the leading money centres of Europe were brought to the very verge of panic. The Bank of England raised its rate of discount from 3½ to 4 per cent. on September 13, to 5 per cent. on October 11, and to 6 per cent. on October 19, the highest point it had touched since the dark period of the Boer War in 1900. The Bank of Germany on September 19 raised its rate from 4½ to 5 per cent., and carried it to 6 per cent. on October 10. Both institutions also felt obliged to resort to whatever other expedients were at their disposal, in order to obstruct the further depletion of their gold. For this reason Mr. Shaw's discontinuance of his order on October 23 was a measure of relief to almost every European capital.

One shortcoming of American banking, the discommoding effects of which have evoked discussion for two generations, and for which Secretary Shaw also offered an executive remedy, is its unresponsiveness to the changing demands of trade. The power of the banks to expand their credit in moments of emergency, and their incentives to contract it in periods of diminished activity have been notoriously inadequate. The world over variations are experienced in the community's need for money between different seasons of the year, as well as from one year to another; but these variations are felt with peculiar urgency in a country like ours, where agriculture with its unpredictable changes, bulks relatively so large. Every one knows how the effect of these changes in America is focussed upon the national banks of New York, how the banks throughout the rest of the country keep their balances and part of their reserves in New York, how the New York banks pay interest upon these balances, and so are obliged to find a profit by lending them out on call to brokers, and then how, year after year, the pinch is felt in New York at harvest time, when the balances are called home to the

West, North and South. At such times it would be very convenient for the banks, especially for those in the financial centres of the East where the drain is most disturbing, if they could expand their credit in place of the money which has been temporarily called away. It would be well, too, if in the slack months and lean years, they were strongly motived to reduce their credit in conformity with the diminishing demand. The fact is only too familiar, however, that our banking regulations with regard to the extension of credit both in the form of notes and of deposits, have tended, ever since the national banking system was established, to make our means of payment peculiarly inflexible and unadaptable in amount.

The bond requirement for the notes makes their issue depend more upon the amount and price of government bonds than upon the community's needs, while the delays incident to the deposition of the bonds, and the restrictions upon the retirement of the notes, often make it impossible to obtain additional currency or to withdraw redundant issues before the need for a change has passed.[1] At the

[1] The claim has sometimes been made with a considerable show of plausibility, that under our regulations notes are apt to be issued in quantities just contrary to the tendencies of demand During a period of general depression, for instance, when funds are accumulating in the banks and there are few opportunities for employing capital, it is said that the banks can peculiarly well afford to buy bonds at a premium and make the necessary redemption deposit, altho at such moments there is no real need for additional notes On the other hand, when the bank reserves are low and business very active, the banks can ill afford to have their funds tied up in bond premiums and redemption deposits, and the note supply is therefore likely to be diminished The elasticity of our note system has, on this account, been characterized as "perverse," meaning that it is elastic in the wrong way, tending to expand when it ought to contract, and to contract when it ought to expand. (See H. R. Seager, *Introduction to Economics*, pp. 340, 341.) This claim somewhat magnifies the evils of the system. It overlooks the fact that in periods of business stagnation, when interest rates are low, the price of bonds runs high, which tends in turn to check increasing issues, and that *vice versa*, in very active periods when high rates for money prevail, the price of bonds is inclined to sag, which tends to encourage further issues.

The experience of the country during the last seven years indicates that, even in periods of the greatest activity, there is no longer much likelihood of a contraction of the notes. The act of March 14, 1900, so reduced the expense of issue that, since that time, there has been an almost uninterrupted increase, and this is likely to continue at an even more rapid rate, if additional bonds are issued for the

same time the requirement of a proportional minimum of cash against all deposits fixes an uncompromising limit to the extension of loans and discounts in this more usual form of credit. From the instant that the required reserve has been touched, no matter how critical the need, if the law is strictly enforced, no further accommodation can be granted. In few other countries is the issue of notes subject to such cumbrous regulation as here, and the American limitation of deposits is without parallel anywhere.

Mr. Shaw believed, nevertheless, that, even without further legislation, the rigidity of American bank credit might be remedied, as could most other defects in our banking system, through the agency of the government Treasury. In his opinion, all that was required to infuse elasticity into our currency was the further elaboration of expedients which he had already invented and employed.

V. We have already noted, in passing, one of the ways in which he attempted to render the currency more elastic. We have seen him in the slack months of 1903 accumulating with premeditation some 40 millions in the Treasury vaults, that he might have it available for market relief in the stringent months of the autumn. In 1906 he repeated the experiment upon a still larger scale. To use his own words, he "undertook the task of making some slight provision for the inevitable. He withdrew from the channels of trade $60,000,000, and locked it up. This was accumulated in part by deliberate and premeditated withdrawals. His only excuse," he adds, "for withdraw-

construction of the Panama Canal In the seven years which have elapsed since the passage of that act the note issue has increased at an annual average of 62 millions, and there has never been any retrogression of significant proportions. The question for future consideration is how to promote the contraction, rather than how to provide for a greater expansion of the note issue. Mr Shaw, however, in the autumn of 1906 proposed a plan for making a further permanent increase in the note issue of $200,000,000. *Finance Report,* 1906, p. 46.

ing the people's money when they did not need it, and when its presence invited speculation, was to have it ready to restore when they did need it, and when its absence would bring certain disaster."[1] On September 27 the Secretary announced that, in his opinion, the time had arrived for the extension of relief, and that $26,000,000 of government money would at once be contributed to bank deposits in addition to further temporary deposits against engagements of gold.

Nor did he intend that these government funds should be used to foster speculation in the stock market. According to his views, as quoted in the Washington despatches of that day, if the whole $26,000,000 were put into the New York banks, they would be swallowed up within a week or two in the maelstrom of speculation. He planned, therefore, to distribute his deposit benefactions as widely as possible. They were to be scattered among institutions in no less than twenty-six different cities, covering the crop-moving area of the West and South as well as the financial centres of the East, but New York City was to get only $3,000,000.[2] Mr. Shaw's precautions, however, were not destined to succeed. Notwithstanding his announcement as to the distribution of the deposits, it soon appeared that probably half of the $26,000,000 had found a resting-place in the banks of New York. Amounts at first offered to banks in other cities were declined because the banks could not supply the required collateral, and other deposits actually made in interior cities were reconsigned to New York because of the higher rates of profit there prevailing.[3] The projected diffusion of the

[1] *Finance Report*, 1906, p. 41.

[2] Chicago was also to receive $3,000,000, while Boston, Philadelphia, St. Louis and New Orleans were to get $2,000,000 each, Baltimore, Louisville, Kansas City and Cleveland, $1,000,000 each; Pittsburg, Buffalo, Minneapolis, Milwaukee, Detroit, Cincinnati, St. Paul, Omaha, Des Moines, Denver, Sioux City, Memphis, Peoria, Atlanta, Nashville and Sioux Falls, $500,000 each

[3] See *Evening Post*, October 6, 1906; also *Commercial and Financial Chronicle*, vol lxxxiii p. 780

public funds thus proved a partial failure on account of the impossibility of controlling their eventual destination.

In making these large deposits with the banks in the stringent periods of 1906, Mr. Shaw introduced a further element of premeditated flexibility by providing in advance for their retraction during specified, and presumably less active months. When, on March 2, he announced that he would deposit $10,000,000 in certain cities, it was with the distinct understanding that it would be recalled in the following July. The $26,000,000 distributed under the offer of September 27, was deposited with notice that it would probably be recalled about February 1, 1907; and again on December 5, when he offered an increase of $10,000,000, it was on condition that it be returned between January 20 and February 1. These dates of withdrawal were fixed, not by the expected needs of the Treasury, but by the probable changes in the currency demand of trade. They represented primarily an effort on the part of the Secretary to make the country's currency more elastic.

VI. Mr. Shaw's experiments in elasticity were not confined alone to the deposits. He attempted also to adapt the note issue by executive decree to the fluctuating needs of business. By changing his decision from time to time as to acceptable collateral for the government deposits, he endeavored alternately to increase and decrease the amount of government bonds available as a basis for the notes. When he gave notice that he would permit national banks, having deposits of government funds secured by government bonds, to substitute municipal and other securities for such collateral, it was generally on condition that the bonds so released be used at once as the basis for new bank-note circulation. In this way he thought to make bank-notes available, instead of reserve money, to

meet the increased requirements of the moment for autumn business and crop distribution. Then, in the less active months that followed, he tried to force a retirement of this emergency circulation, by ordering a resubstitution of the government bonds as collateral for the public deposits. It was on September 29, 1902, that Mr. Shaw first allowed the depositary banks to offer other than federal bonds to secure the public funds, and four months later, on January 20, 1903, when normal trade conditions were restored and money rates again were easy, he rescinded the order, and demanded the withdrawal of the unusual security before the end of the following July. His evident intention was to call in gradually, between January and August, the extra circulation issued during the emergency of the previous autumn. But, altho he had succeeded in adding to the currency during the stringent months of 1902, his efforts at contraction in the slack months of 1903 did not achieve an equal success. On August 1, there were not only no signs of contraction, but the note circulation registered an increase of fully $33,000,000 above the level at which it had stood in the beginning of January.[1]

Mr. Shaw, needless to say, never acknowledged that the expedient had failed. In 1906 he turned to the provision of note elasticity upon a larger and more systematic scale. On October 18, he announced that he would accept other securities against government deposits to the extent of $18,000,000, provided that a similar amount of government bonds were used to take out new notes. At the same time he planned for a future contraction of the circulation, when the supposedly special need was past, by stipulating that the notes so issued should be retired at the rate of $3,000,000 per month between March 15 and September 1 of the following year. The Washington despatches which announced this offer reported him as say-

[1] See appended table, No. 2, p. 568.

ing that through this experiment "he expected to demonstrate in a limited form the benefits of an elastic currency." Mr. Shaw once more succeeded in giving new impetus to the expansion of the notes, but his efforts to provide for their subsequent contraction were as ineffectual as before. The circulation on January 1, 1907, revealed an increase of no less than 24 millions over the amount outstanding at the beginning of October; but the issue continued steadily to increase after that date, even during the months of the following spring and summer, when Mr. Shaw had arranged for contraction.[1]

Altho Mr. Shaw had exercised a control over the currency and over financial conditions such as no other official in this country had ever exercised, and for which no official in Europe has authority, he was by no means content with the measure of his power. In his report for 1906 he asked that the Secretary be given additional and virtually absolute authority over the expansion and contraction of bank credit. He thought that the Secretary should be empowered to decide whether or not the banks should retire their circulation, and by what amounts. "It would be wise," he said, "to clothe the Secretary of the Treasury with discretion whether he will allow retirement of the circulation at any given time, and to place such limitation thereon as in his judgment will best conserve the business interests of the country."[2] The Secretary ought also, in his opinion, to be able to force a contraction of the notes when he saw fit. "Suppose the Secretary of the Treasury had authority to order the national banks to make deposit to the credit of the redemption fund of an amount equal to one per cent. of their circulation every fifteen days [*between April and September*]. . . . This would result in a contraction of national bank circulation amounting to

[1] See appended table, No. 2, p. 568.

[2] *Finance Report*, 1906, p. 46.

sixty millions, and by requiring the bonds to remain on deposit, this amount could again be issued during the fall and winter, as necessity required."[1]

Furthermore he believed that the Secretary ought to have power to decide at any time what proportion the banks' reserves should bear to their deposits. He should be given authority, to quote again from the Secretary's own words, "to require all banks at certain times fixed by him to slightly and gradually increase their reserves, and hold the same within their own vaults, with corresponding authority to release the same from time to time as in his judgment will best serve the business interests of the country."[2]

In his earlier reports Mr. Shaw had argued for currency reform through new enactments of the legislature. He had advocated the passage of a law which would allow the issue of bank-notes based upon general assets and made elastic by a heavy tax, and he had elaborated some of the details of a plan for grafting such a measure upon the existing system.[3] In his report of 1906, however, he was apparently more enamored of the power of the Treasury to affect the situation than of any scheme for improving the machinery of banking. If only the Secretary of the Treasury could be endowed with the desired authority, he was not only sanguine as to the financial future of this country, but confident even of a serene future for financial affairs in the rest of the world. If he "were clothed with authority over the reserves of the several banks, and with power to contract the national bank circulation at pleasure," and if, in addition, he "were given $100,000,000 to be deposited with the banks or withdrawn as he might deem expedient," in his judgment, "no panic as distinguished from industrial stagnation could threaten either the United States or Europe that he could not avert."[4] When inter-

[1] *Finance Report*, 1906, p. 49. [2] *Ibid.*, p. 48.

[3] *Finance Report*, 1902, p. 60; *Finance Report* 1905, pp. 24, 25.

[4] *Finance Report*, 1906, p. 49.

viewed as to the manner in which the control of the world's markets would be carried on under his scheme, he was quoted as saying that, whenever money was scarce, he would let out enough of his $100,000,000 fund to relieve the stringency. If the money were needed in New York, it would be sent to New York. If it were needed in London, he would deposit, say, $50,000,000 in New York, with the understanding that half of the amount was to be sent abroad to ease the strain there.[1] In his official report, in fact, he frankly avowed that, if financial conditions were disturbed in Europe, he "would not hesitate to make deposits in national banks on condition that the banks in turn promptly deposit an equal amount abroad."[2] Mr. Shaw admitted that the grant of powers which he sought was altogether beyond precedent in this country and without parallel elsewhere, but he claimed that no man not fit to exercise them had ever been or ever would become Secretary of the Treasury.[3]

In pursuing a policy and in proposing measures so alien to our traditions Mr. Shaw was doubtless impressed with certain characteristics of American banking which differentiate it from the systems of most other countries. Nowhere else will one find such equality of importance among the banks, and such absence of any predominant leadership. Nowhere else will one find so large a number of quite disconnected firms, or such mutual independence of action. We have no less than 16,000 separate banking institutions, and among them all, despite the considerable variations in size, a certain democratic equality prevails.[4]

[1] *Evening Post,* (New York), December 7, 1906.

[2] *Finance Report,* 1906, p. 40. [3] *Ibid.*, p. 49.

[4] Even the grouping of corporate and private banks and trust companies under common ownership, which has attracted so much attention in recent years, has not essentially modified this individualistic organization of the system as a whole. The amalgamations have, for the most part, been of firms within a single city, and

The largest is not particularly large when judged by English or European standards, and none is in a position, either because of its dimensions or its privileges, to exert an effective control over the policies of the rest. They recognize among themselves no headship. Each is free at any time to adopt whatever policy of expansion or contraction it may choose or its particular condition at the moment may warrant. Gold may come or gold may go, but no firm interposes inducement or hindrance to the movement except for its individual profit. So, too, in times of stress each is left to shift for itself, with no other aid than that which mutual self-interest and the ingenuity of the moment may dictate.

In England and in most European countries, on the other hand, the banks are ranged in a sort of hierarchy. There are a few central institutions in the financial capitals and a vast number of auxiliary offices, subject to their control, scattered throughout the country. Above them all stands one particular bank exercising leadership over the rest. One single institution, because of its ancient prestige, pre-eminence of capital, affiliations with the government, or its position as banker for the other banks, is able to guide financial conditions throughout the country to a

have not often involved, as have the somewhat similar movements in England and Germany the combination of banks in different localities throughout the country. The national banking law still prohibits the federal institutions from opening branches. State laws seldom allow their banks to open offices beyond the boundaries of the same city; and, except in the large financial centres, the intent of these laws has not been seriously evaded. The statistics published by the federal Comptroller do not fundamentally misrepresent the American situation when they declare the existence of more than 6,000 separate banks incorporated under national authority and some 10,000 other banking firms organized under state tutelage (including the trust companies, but admittedly overlooking many local unincorporated banks). The contrast of this with the situation in England is shown by the fact that the most complete English reports that we have reveal only 164 independent banks, with, however, no less than 5,408 banking offices (*Banker's Magazine*, London, February, 1907, p 185). The contrast with Germany, too, is almost equally striking, where the best figures (which again are frankly uninclusive of many small banks) recorded only 220 separate firms for the end of the year 1904, while at the same time ten of these firms reported no less than 810 offices (*Deutsche Oekonomist*, 28 Juli, 1906, p. 443).

considerable extent along what its directors take to be lines of public interest. It regularly endeavors to influence the market rates of interest, to stimulate movements of gold in and out of the country, to check banking excesses in periods of speculative excitement, and to relieve banking distress in times of general difficulty.

Many an American before Secretary Shaw had admired this focalization of control and of responsibility in the money markets of Europe, and had tried to devise methods for recasting our banking arrangements in one way or another upon the European model. The usual plan contemplated the re-establishment of a relatively large and especially privileged bank, and a retrial of the experiment which had been twice unsuccessfully made early in our history. No person of authority before Mr. Shaw, however, had ever proposed that the government Treasury assume the supervisory powers exercised in Europe by the central banks, or that the Secretary of the Treasury should be intrusted with the guidance of banking policy and the general protection of the financial world. Occasionally, as we have seen earlier in this paper, in periods of acute distress, when the accumulation of a surplus in the Treasury appeared to be one of the sources of alarm, earlier Secretaries had offered relief to business by prepaying the interest or capital of bonds, or by purchasing bonds in the open market, or by increasing the deposits in the national banks.[1] Sometimes too, during sudden emergencies, in their endeavors to afford relief Secretaries had resorted to measures of doubtful legality, as when Secretary Boutwell allowed the reissue of retired greenbacks in October, 1872, and in the memorable autumn panic of 1873.[2] It

[1] See David Kinley, *The Independent Treasury of the United States*, pp. 174–201; C. A. Conant, *The Principles of Money and Banking*, vol. ii. pp. 369–375.

[2] For a detailed account of Secretary Boutwell's relief of the market in 1872 and 1873 see article by Eugene B. Patton, entitled "Secretary Shaw and Precedents as to Treasury Control over the Money Market," in the *Journal of Political Economy*, vol. xv. pp. 65–87.

was no new thing for the government, when business was actually involved in a crisis, to do what it might to check the disaster. But never before had a Secretary declared that it was the place of the Treasury to intervene in banking operations outside of times of panic. Never before had a Secretary deliberately announced in advance that the government's intention was to extend assistance in case the banks got into difficulties. Never before, in a word, had a Secretary attempted to incorporate among the regular and ordinary functions of the American government the paternal practices of the European central banks.[1] Mr. Shaw, however, went beyond all this. Not only did he adopt the methods and exercise the powers of the European banks, but, by audaciously stretching the natural prerogatives of his high office, he intervened in the affairs of banks in ways, and to a measure, not paralleled by any central bank in the world.

Mr. Shaw's administration of the Treasury was marked, we have seen, by at least six significant departures from the paths of his predecessors. (I) He placed government money with the banks upon other security than government bonds; (II) he exempted the banks from maintaining the legal reserve against government deposits; (III) he transferred to the banks public money which had already been turned into the Treasury; (IV) he artificially stimulated the importation of gold; (V) he deliberately withdrew money from the banks in certain seasons in order to redeposit it later; and (VI) he forced alternately the enlargement and retirement of the note issue by changing his orders about deposit security as he saw fit. In pur-

[1] Almost the only precedent for Mr. Shaw's proposals which has been cited is a suggestion, apropos of the management of the greenbacks, made by Secretary Boutwell in his Treasury report of 1872, wherein he recommended "that the circulation of the banks should be fixed and limited, and that the power to change the volume of paper in circulation [*meaning the greenbacks*] within limits established by law, should remain in the Treasury Department." *Finance Report*, 1872, p. xx.

suing a policy so full of innovations, he acted under the same legislation as his precursors in office, for no new laws were passed during the period of his service which affected the relations of the Treasury and the banks. That some of his measures were unwarranted by the existing laws is sufficiently plain, and in several cases he undoubtedly overstepped not only their letter, but their spirit. The verdict of history, however, is likely to depend upon considerations quite apart from the construction of the law.[1]

Mr. Shaw's policy was objectionable because he was regardless of the law—an offence in itself not to be easily condoned. But it was even more objectionable upon economic grounds. For one thing, it inevitably tended to discourage prudent preparation on the part of the banks. The assurance that some one stands ever ready to help in time of financial need naturally removes the strongest motives for caution and thrift. It operates so with the

[1] Mr. Shaw's attitude towards irksome laws is probably indicated by an interview with him in Chicago on December 29, 1905, upon the occasion of the Walsh failures. His statements may or may not have been correctly reported, but they were published, as given below, in the leading papers of the country, and they bear plausible indications of general authenticity.

Mr Walsh, the president of the Chicago National Bank, an institution capitalized at $1,000,000, it appeared, had borrowed $1,748,000 from that institution upon nineteen dummy notes of $92,000 each, signed by a dozen or more different persons. This was an obvious violation of the national banking law, which at that time forbade loans to any one individual or firm of more than one-tenth of the bank's capital Secretary Shaw, in referring to this circumstance, is reported to have said "that practically all the large banks in the United States are ignoring the 10 per cent. law, the violation of which caused the suspension of the John R Walsh banks; that the business of the country is on such a basis to-day that such violations are not only not criminal in many cases, but actually necessary in handling the enormous volume of trade; that, while the Treasury Department does not ignore these technical violations to the extent of approving them officially, it has not endeavored to enforce the law to the strict letter in all cases; that Mr. Walsh had done nothing more than many of the bankers of the country are doing every day, but that, when he increased these loans to the extent that danger appeared to be impending, liquidation was the only proper method to pursue " Among other comments of similar tenor Mr. Shaw is quoted as asking, "What is the difference between loaning $10,000,000 to ten different persons, all of whom put up United States Steel Corporation securities, and loaning the $10,000,000 to one person who might furnish exactly the same amount of securities of the same kind?" Then he is said to have added that "right here in Chicago a certain gentleman, whose name I do not care to give you, told me he had borrowed $6,000,000 at one time His securities made that loan safe." The *Inter-Ocean*, Chicago, December 29, 1905

sons of wealthy fathers, and it is hard to see any reason why it should work otherwise with the wards of a rich and paternal government. Walter Bagehot and other foreign financial experts of an earlier day pointed admiringly at our banking system, because it was not presided over and protected by any one institution of preponderant importance. They found grounds for security, and incentives for conservative management in the absence of any central source of support, and in the wide diffusion of responsibility that prevailed in consequence. Bagehot spoke of the American system, "where there were many banks keeping their own reserve, and each most anxious to keep a sufficient reserve, because its own life and credit depended on it," as the "natural system" of banking.[1] This advantage, which, in the past, had been a differentiating characteristic of our banking system, and the natural outgrowth of all its previous history, Mr. Shaw's policy unfortunately obliterated. So long as he remained in office, continually assuring the public that the government surplus would be administered by him as an emergency reserve for private business, banks and bankers naturally felt less obliged to husband their resources. Outside relief in business, like outdoor charity, is apt to diminish the incentives to providence, and to slacken the forces of self-help. It is not strange, therefore, that during his incumbency the reserves of the New York banks fell more frequently below their legal minimum than they had under any of his predecessors in office. As a matter of fact, from the panic of 1893 until Mr. Shaw assumed office in 1902, the legal reserves had only once, in November, 1899, been trespassed upon, yet during his administration it happened no less than seven different times,[2] and this, notwithstanding his

[1] Walter Bagehot, *Lombard Street*, p 106.

[2] In September, 1902, in November and December, 1905, in April, September, November, and December, 1906.

frequent and large contributions to their reimbursement when they were tending downwards.

Moreover, the policy of Mr. Shaw not only tended to inculcate shortsightedness in preparation, but it must also have tended, in periods of difficulty, to restrain the natural correctives. High-call money rates in Wall Street are not necessarily an evil for the country. A stiff rise in such rates is sometimes the very thing most needed. If the situation has resulted from the over-trading and over-speculative propensities of the community, a stringent market will spontaneously afford the best sort of a remedy by forcing a reduction of bank liabilities. Further, if the situation is really serious and especially if it continues for any length of time acute, the high money rates are certain sooner or later to bring another corrective through an inflow of gold from abroad. In such cases, the intervention of the government with artificial aid tends at once to prevent both of these natural influences from working out their results. Such action may temporarily remove the symptoms of disorder, but it is not apt to affect a permanent cure. Later experience may show not only that it has postponed the critical stage, but that it has augmented the evil of the final outcome. On this account one must not judge Mr. Shaw's policy from its immediate effects. His lot was cast in a fortunate period, and the ultimate results of the precedents which he created may prove very unlike those at once apparent.

The resort to government assistance for money-market pressure is thus fraught with a double danger from the point of view of the banks. It tends to check appropriate measures of precaution and to hinder natural methods of relief. The system is also open to objection upon political grounds, because of its easy liability to abuse. Under quite conceivable circumstances it might be grossly prostituted to ends of personal profit or political success. One

can imagine innumerable ways in which a crafty Secretary might misuse his power, so as to increase his personal fortune, or prepare the way for a position of profit upon his retirement from the public service. One can picture, too, the use which a not too-high-minded politician in the Treasury might make of it on the eve of a campaign, or of an election. But even where the Secretary's honesty and disinterestedness are above suspicion, the system is liable to abuse through the Secretary's unwisdom, or his unmerited confidence in his counsellors. Even the wisest and best-intentioned Secretary is apt sometimes, in the midst of problems of such elusive and inscrutable complexity, to be duped by interested advisers into measures that favor their private gain. If the known intention of the Secretary is to grant assistance in case of need, it is not inconceivable that events should be deliberately shaped to induce relief, even when the actual conditions do not warrant it. Mr. Shaw, in his last report, curiously enough gives an example directly in point of such an effort, in his case unsuccessful, to mislead him into assisting the market. "During the forenoon of November 13, 1906," he tells us, "ruling rates on call money were 12 per cent., touching as high as 14; but, after an announcement by the Secretary that he would in no manner relieve the situation, the rate dropped to about 5 per cent., and closed at $5\frac{1}{4}$."[1] The incident was doubtless cited as evidence of the Secretary's extraordinary perspicacity, but nothing could better illustrate the dangers to which his policy is subject. Upon this occasion Mr. Shaw was warily proof against the design of speculative interests to deceive him, but one naturally wonders whether at other moments he may not have been somewhat less watchful or less discerning.

It is a very serious ground of objection to Mr. Shaw's whole policy that the continued manipulation of the public

[1] *Finance Report*, 1906, p. 40.

funds in aid of private business, no matter how honestly administered, is certain to arouse suspicions and accusations. In pursuing such a policy the government is likely at any moment to be plunged into violent and acrimonious debates such as centred around the handling of the public money during the political struggles of the thirties. In fact, altho the matter never chanced to become a serious political issue under Mr. Shaw's administration, the charge of favoritism was continually being levelled against the Treasury throughout his term of office. Time and again it was alleged that a certain bank in New York had received advance information of changes in the Treasury policy which involved fluctuations in the money market, and repeatedly the close relations of the Secretary with the representatives of that bank were alluded to in the financial press. The truth or falsehood of such financial gossip is not here in question. The point of import is that, under the system of paternalism fostered by Mr. Shaw, with the money market left dependent upon the judgment or caprice of public officials, such charges are certain to be made, and are sure to find support.[1]

[1] Mr. Shaw's selection to be president of a New York trust company immediately upon his retirement from the Treasury was thus made a matter of considerable comment and gossip at the time.

The following passage from a letter of May 8, 1907, soliciting business, sent by him as president of that company to a number of country bankers with whom he had, as Secretary of the Treasury, deposited public funds, indicates how difficult it is to keep public and private affairs discreetly distinguished:—

"While Secretary of the Treasury, I tried to assist the country banker, and, if I had not thought I could still be helpful, I would not be here. The Carnegie Trust Company does not expect to pay more for business than its competitors, but it will go to the limit of conservatism. Does liberal interest allowance on active account, with the assurance of equally liberal treatment, should you need assistance in bridging a temporary period of unusual local demand, look attractive?

"I should be glad of at least a portion of your New York account, and feel sure you will like our manner of doing business.

"Very sincerely yours,

" L. M SHAW, *President*,"

From the New York *Times*, May 16, 1907, p. 11.

In an interview published in the New York *Sun* on May 17, 1907, Mr Shaw was reported to have said:—

The American banking system, we have seen, presents many opportunities for improvement. The banks are hampered by unusually rigid regulations as to their reserves against deposits, and as to their note issue. They suffer also from a cumbrous independent treasury system in process of dissolution. Fully recognizing all of the shortcomings of the system, one must still feel it unwise to have them corrected by arbitrary and lawless interpretations of expediency on the part of an official over whom Congress has little or no control, and whose decisions may be immediately reversed by his successor in office. What the country imperatively needs to-day as regards the relations of the Treasury and the banks is the formulation of a definite, consistent, and law-regarding policy involving the least possible amount of state interference with business. Substantial equilibrium in the Treasury holdings, detachment from relations with the stock market, and equal treatment of all banks are the criteria of such a policy. We cannot at this point, without unduly prolonging an already lengthy discussion, give to the subject the detailed consideration that it deserves; but, in a word, we believe that these ends can be easily attained, if Congress will enact a law requiring the Secretary of the Treasury to deposit with the banks daily, all receipts in excess of a fixed balance, the deposits being made available upon the same terms to all national banks without discrimination. In this way the country may again be freed from the spasmodic locking up and pouring out of money at the Secretary's personal decree, from the incessant intermeddling of

"I have had letters from city bankers, as well as country bankers, thanking me for the way I treated them in the way of deposits Each thinks I treated him better than the others. I will say this, however, that, having been a country banker myself, I appreciate what deposits must have been to them, and I had this in mind when I sent out my circular letter."

Mr. Shaw did not expressly state that he expected bankers to appreciate favors he had rendered as an officer of the government, and make return for them to him as a private business man; but scarcely any other construction could be put upon the letter or his reported remarks.

the government Treasury in the speculative market, from the arbitrary manipulation of bank reserves, note circulation, and rates of foreign exchange, and from all the overnight changes of policy with which the country has been afflicted during the last five years. One cannot but hope that, with the reconvening of Congress, no time will be lost in annulling the dangerous and indefensible precedents left us by Mr. Shaw.

A. Piatt Andrew.

APPENDIX.

TABLE 1. UNITED STATES TREASURY BALANCES AND TREASURY DEPOSITS IN THE NATIONAL BANKS

Year.	Number of depositary banks on June 30.	Deposits of Treasury in national banks on June 30 until 1878, in later years on maximum last day of month[1] — Month.	Deposits of Treasury in national banks on June 30 until 1878, in later years on maximum last day of month[1] — Amount.	Net balance in Treasury offices on the same date.	Total available Treasury balances on the same date.[2]
1864	204	June	39 millions	72 millions	112 millions
1865	330	"	36 "	5 "	41 "
1866	382	"	34 "	101 "	136 "
1867	385	"	25 "	125 "	151 "
1868 . . .	370	"	22 "	86 "	109 "
1869	276	"	8 "	111 "	120 "
1870	148	"	8 "	102 "	110 "
1871	159	"	6 "	82 "	89 "
1872 . . .	163	"	12 "	60 "	73 "
1873 . . .	158	"	7 "	49 "	56 "
1874 . . .	154	"	7 "	64 "	72 "
1875 . . .	145	"	11 "	51 "	63 "
1876	143	"	7 "	51 "	58 "
1877	145	"	7 "	84 "	91 "
1878	124	September	75 "	148 "	223 "
1879	127	May	279 "	196 "	475 "
1880 . . .	131	December	12 "	172 "	184 "
1881 . . .	130	September	13 "	191 "	204 "
1882 . . .	134	May	13 "	178 "	191 "
1883 .	140	April	14 "	171 "	185 "
1884 . .	135	October	15 "	188 "	203 "
1885 .	132	April	13 "	187 "	200 "
1886 . .	160	December	18 "	261 "	279 "
1887 . . .	200	December	52 "	260 "	312 "
1888	290	April	61 "	280 "	341 "
1889 . . .	270	January	50 "	231 "	281 "
1890	205	January	37 "	191 "	228 "
1891 . . .	185	February	30 "	138 "	168 "
1892	159	January	18 "	113 "	131 "
1893	160	August	16 "	91 "	107 "
1894	155	June	16 "	101 "	117 "
1895	160	June	15 "	180 "	195 "
1896	160	March	27 "	244 "	271 "
1897	168	December	49 "	186 "	235 "
1898 . . .	172	October	95 "	205 "	300 "
1899	357	January	88 "	186 "	274 "
1900 . .	442	February	111 "	187 "	298 "
1901	448	November	112 "	205 "	317 "
1902	577	December	150 "	214 "	364 "
1903	713	November	168 "	201 "	369 "
1904	842	January	166 "	212 "	378 "
1905 . . .	837	January	102 "	188 "	290 "
1906	928	December	158 "	155 "	313 "

[1] These figures are taken from the report of the Treasurer. From 1864 to 1878 the figures are for the last day of June. For the later years the figures are for that last day of the month when the deposits in the banks reached their highest point. Upon other days in the year the deposits may have reached a still higher total. On the last day of April, 1879, for instance, according to the Treasurer's report, the government deposits in the national banks were $260 793,980, but on April 4 of the same year the returns of the Comptroller showed government deposits of $306,152,695.

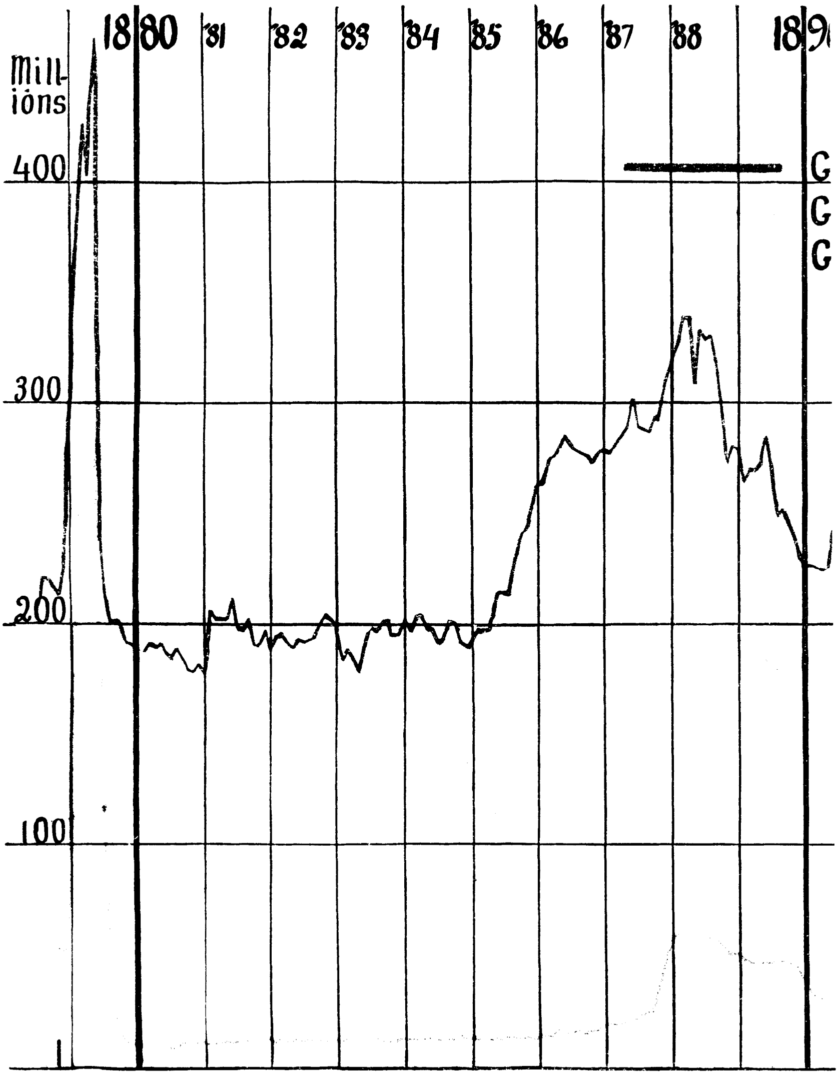
[2] The "total available Treasury balance" includes the total of cash actually held in the Treasury offices or on deposit with the national banks. From this total

TABLE 2.—NATIONAL BANK NOTES OUTSTANDING AT THE END OF EACH MONTH.

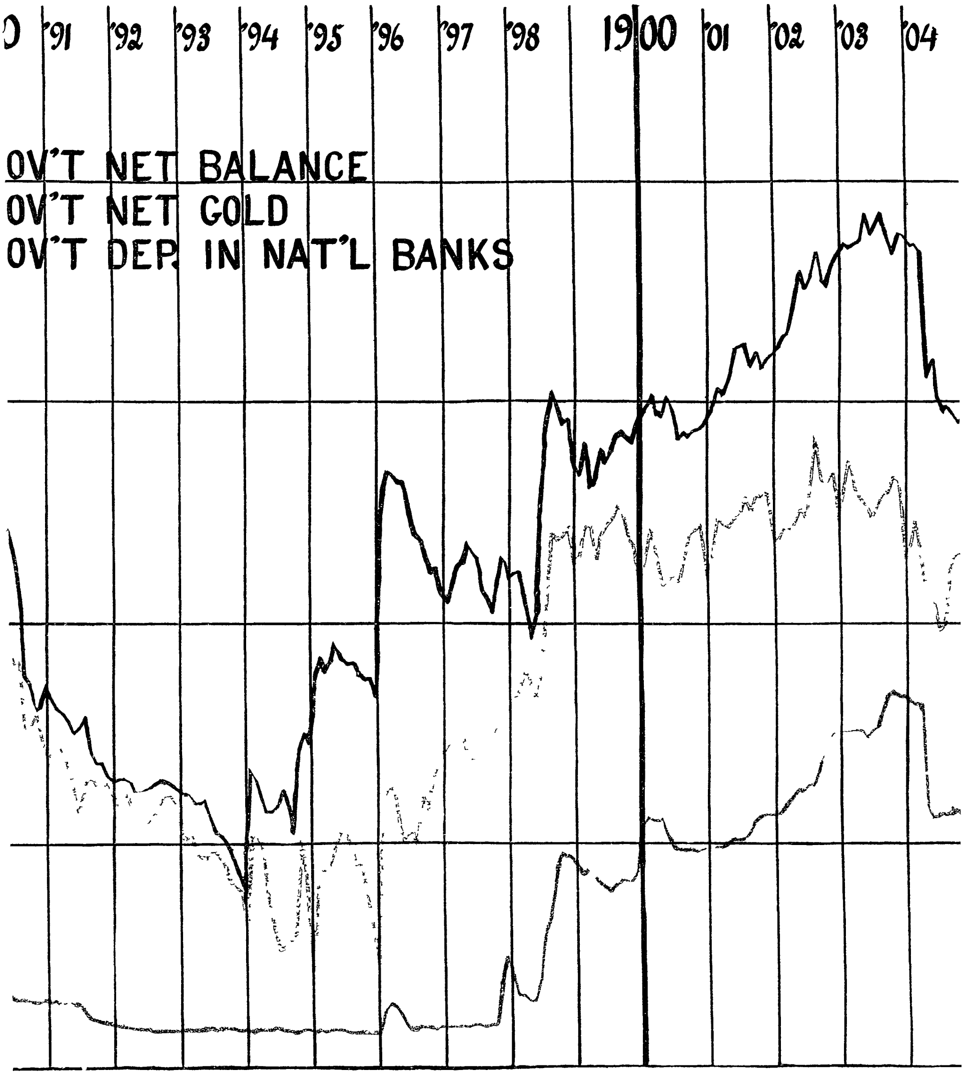
Month.		Notes Outstanding.	Month.		Notes Outstanding.
1902	January	$359 millions	1904	October	$457 millions
	February	358 "		November	460 "
	March	357 "		December	464 "
	April	356 "	1905	January	467 "
	May	356 "		February	469 "
	June	356 "		March	475 "
	July	358 "		April	481 "
	August	361 "		May	488 "
	September	366 "		June	495 "
	October	380 "		July	503 "
	November	384 "		August	512 "
	December	384 "		September	516 "
1903	January	383 "		October	524 "
	February	382 "		November	533 "
	March	382 "		December	540 "
	April	391 "	1906	January	543 "
	May	406 "		February	550 "
	June	413 "		March	554 "
	July	417 "		April	556 "
	August	418 "		May	559 "
	September	420 "		June	561 "
	October	419 "		July	561 "
	November	421 "		August	569 "
	December	425 "		September	573 "
1904	January	426 "		October	583 "
	February	430 "		November	593 "
	March	434 "		December	596 "
	April	437 "	1907	January	597 "
	May	445 "		February	596 "
	June	449 "		March	597 "
	July	450 "		April	599 "
	August	452 "		May	601 "
	September	456 "		June	603 "

is deducted (1) the amount of gold and silver certificates outstanding (for which a reserve must be held dollar for dollar); (2) the Treasury notes outstanding (against which silver must be held); (3) the disbursing officers' balances; (4) the five per cent. redemption fund for the national bank notes; (5) the post-office department account; (6) a number of other minor deposit and redemption accounts; and (7) the outstanding warrants and checks. For example, on June 30, 1906, the Treasury cash balance was made up as follows:—

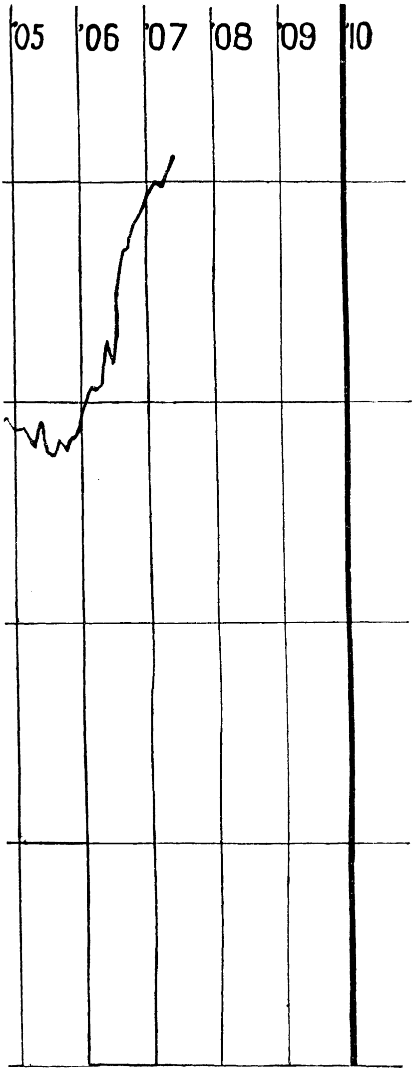
Gold coin and bullion	$807	millions
Silver coin and bullion	499	"
United States notes, Treasury notes, and national bank notes	24	"
Gold and silver certificates	49	"
Minor coins	1	"
Deposits in national banks	90	"
Deposits in Philippine Treasury	3	"
	$1,474	
Gold certificates outstanding	$560	millions
Silver certificates outstanding	477	"
Treasury notes outstanding	7	"
Disbursing officers' balances	52	"
Bank-note 5 per cent. redemption account	21	"
Post-office department account	10	"
Other agency accounts	10	"
Outstanding warrants and checks	6	"
	$1,143	millions
Balance	331	"
	$1 474	millions



Millions
400
300
200
100
1880
'81
'82
'83
'84
'85
'86
'87
'88
189
G
G
G



0
'91
'92
'93
'94
'95
'96
'97
'98
1900
'01
'02
'03
'04
OV'T NET BALANCE
OV'T NET GOLD
OV'T DEP. IN NAT'L BANKS


'05
'06
'07
'08
'09
'10